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June 6, 1974

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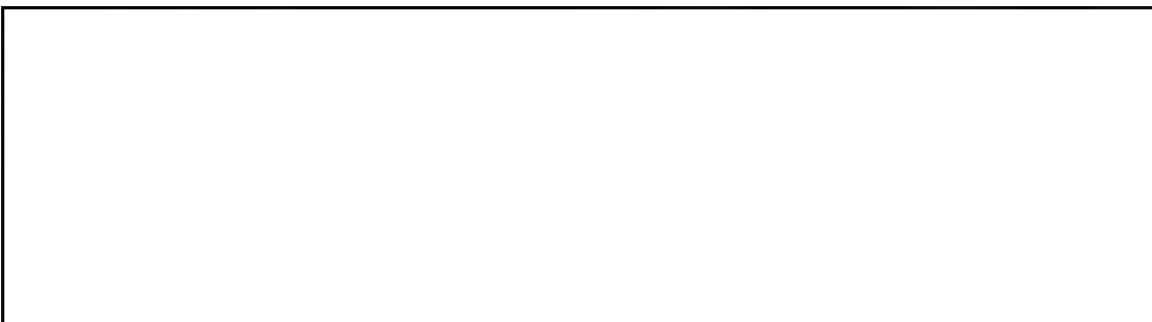


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SOUTH VIETNAM

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Government forces in Military Region 1 have regained several hilltop positions overlooking the populated coastal lowlands and relieved Communist pressure on resettlement camps south of Da Nang.

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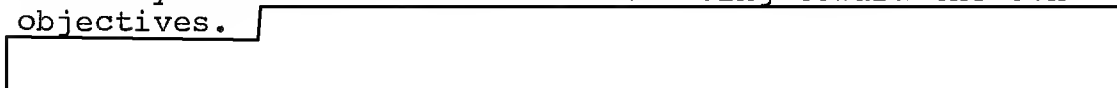
Farther south in Military Region 2, a large retaliatory drive against a major North Vietnamese supply base north of Kontum City has been stalled for several days by intense Communist resistance, but it may be achieving one objective of drawing Communist attention away from two isolated government outposts believed to be on the Communist target list.

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Government forces in MR 3 are following up their recent success against the North Vietnamese 5th Division near the Cambodian border and against the Communist 7th Division in northeastern Binh Duong Province with a move to challenge the North Vietnamese 9th Division that is well dug in north of Ben Cat. The South Vietnamese on June 5 reoccupied the first of several positions in this area that President Thieu has ordered retaken. Saigon infantry and armor units are now moving toward the other objectives.

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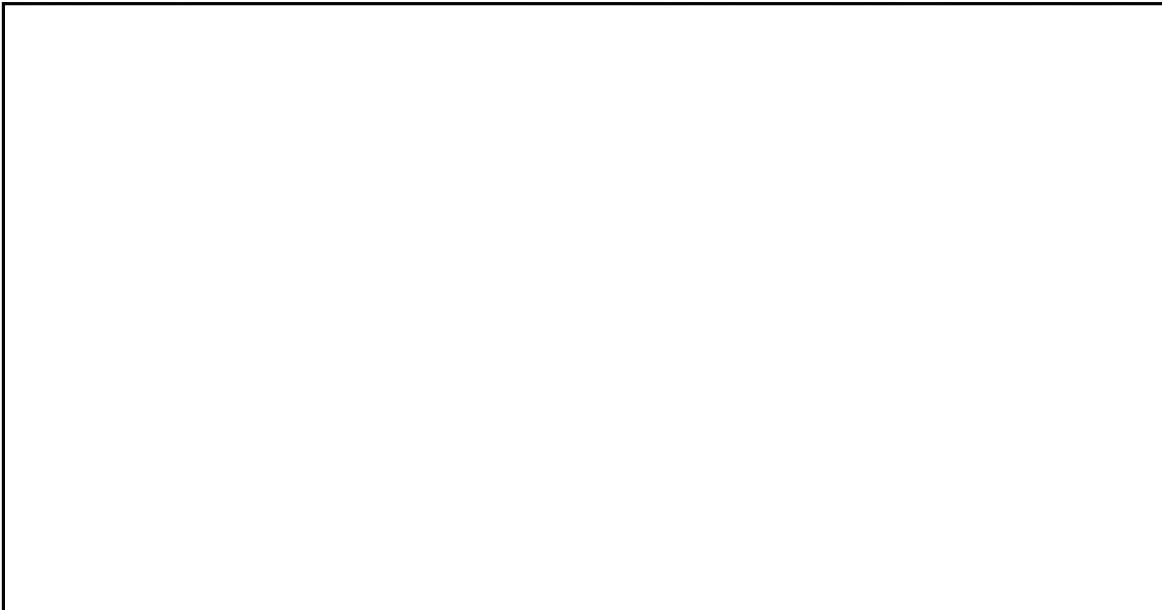
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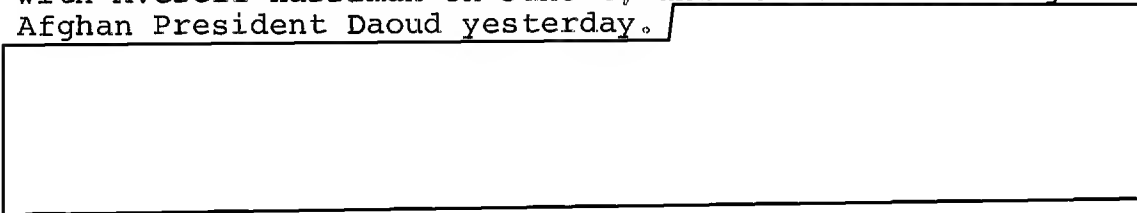
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USSR

After an almost two-week absence from public engagements, General Secretary Brezhnev received Pepsico President Donald Kendall on June 3, held a three-hour meeting with Averell Harriman on June 4, and met with visiting Afghan President Daoud yesterday.



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No public engagements had been reported for Brezhnev in Soviet media since May 24, when he held talks with Yugoslav Minister of Defense Ljubicic. Brezhnev's meeting with Kreisky was canceled at the last moment, ostensibly because the Soviet leader was confined to bed with a mild case of flu.



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BOLIVIA

Forces loyal to President Banzer have quelled the coup attempted yesterday by dissident military officers, which revealed widespread opposition to his administration. Banzer will probably crack down immediately on his most visible enemies, but a general purge of the armed forces would further erode his support.

Rebellious troops managed to surround the presidential palace early yesterday, but they were persuaded by more powerful regiments in La Paz to withdraw peacefully after a few hours. The two lieutenant colonels who led the revolt, Raul Lopez and the popular Gary Prado, subsequently attempted to obtain diplomatic asylum, but recent press reports indicate that they have been arrested and will be tried by military courts.

This latest attempt to unseat Banzer was apparently an impulsive move following the government's exile of other dissidents earlier in the week

Similar pre-emptive moves in the past have enabled Banzer to quash a number of coup attempts and may continue to sustain him in office for some time.

In the long run, however, each successive coup attempt will place Banzer in a weaker position. During the past year he has lost major political allies. Late last year he exiled former president Victor Paz, head of the National Revolutionary Movement, and the party's current chief has taken asylum. The defection of Gary Prado, a spokesman for younger officers, will undoubtedly increase unrest in the armed forces, on which Banzer is now increasingly dependent to remain in power.

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KUWAIT-USSR

Kuwait has rejected the low Soviet-Yugoslav joint bid to build four thermal power plants in Kuwait and has awarded a \$200-million contract to French and Japanese firms. The rejection was probably based on economic as well as security grounds. A Kuwaiti delegation that toured Soviet power projects in India was dissatisfied with the quality of Soviet work. Moreover, the Kuwaitis are not anxious to permit the entry of a large number of Soviet technicians.

Moscow, nevertheless, seems anxious to gain economic influence in Kuwait and probably will continue to bid on construction projects. Moscow has bought small amounts of Kuwaiti petroleum products in the past and may be negotiating to purchase more. Earnings from construction projects could help Moscow pay for increased oil purchases and expand exports of its machinery and equipment.

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ITALY-EC

Following an EC agricultural ministers' meeting on June 4, Rome agreed to exempt the EC from its 50-percent import deposit requirement on most farm imports and to require only a 25-percent deposit on beef imports from member countries. It seems likely that the exception applies only to the community, and will be considered discriminatory by non-EC members.

In return for loosening the deposit requirements, Italy is, in effect, being allowed to devalue the lira for the purpose of intra-community agricultural trade. This step will make Italian agricultural products more competitive in the EC market, while holding down agricultural imports from member countries. Subsidies paid on exports of EC members to Italy will be suspended from three to eight months.

Since the import deposit scheme was initiated a month ago, EC beef exports to Italy have declined drastically and world prices have been falling. German beef exports to Italy reportedly fell by more than 70 percent, while French and Dutch exports also dropped sharply. These countries have protested bitterly about the impact on their beef farmers. The partial lifting of the restrictions should moderate the downward pressure on world beef prices as the Italian demand for EC beef recovers.

The effective date of most of these measures is being delayed until Rome completes internal measures designed to stabilize its faltering economy. If the internal restraints are satisfactory, assistance will probably be forthcoming from the other EC members to help Italy deal with its balance-of-payments problems. [REDACTED]

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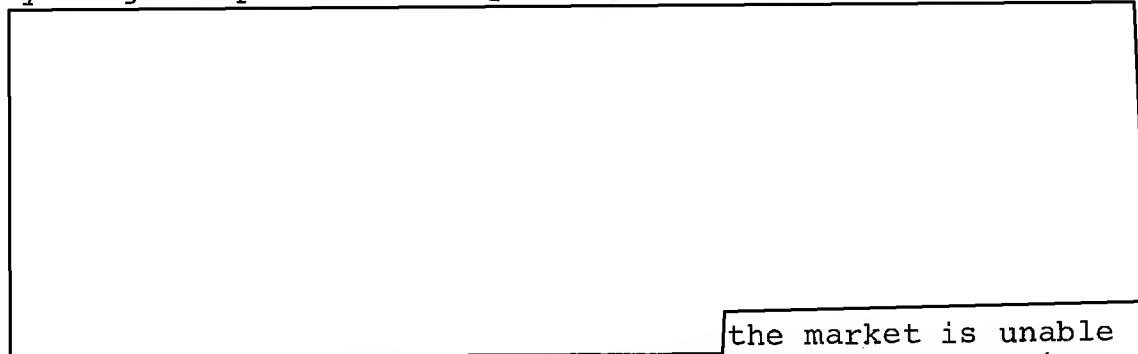
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INTERNATIONAL FINANCIAL DEVELOPMENTS

Two months after the full impact of higher oil revenues first reached the Eurocurrency market, there are indications that the market is having some difficulty recycling oil-producers' deposits.

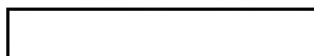
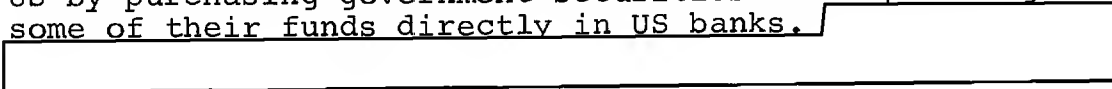
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the market is unable to find enough credit-worthy borrowers to absorb the influx of oil-producers' funds. Increased oil prices have generated a surge in short-term deposits, but the need for oil-related deficit financing is medium term. Even if Eurodollar banks were willing to risk using these new short-term deposits for medium-term loans, they probably could not place all the money safely.

As a consequence, oil producers will be forced soon to seek new outlets for their surplus funds. They will probably begin to channel more funds directly into the US by purchasing government securities and depositing some of their funds directly in US banks.

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PORTUGAL

President Spínola has used a country-wide speaking tour to stress the need for order and discipline. At a swearing-in ceremony in Lisbon for the new Council of State, the president warned against civil disorder and extra-legal actions. He suggested that political parties be conceived as "associations of opinion" rather than rigid blocks, and emphasized that well-orchestrated demagogical slogans were no substitute for political progress in building an open society. His appearances before enormous crowds in Porto, Coimbra, and Tomar have been public relations successes and have marked him not only as a popular hero but as a leader determined to defend public order.

Recent events have demonstrated that the support of the Portuguese Communist Party has become an indispensable factor in maintaining labor peace. Communists in the labor ministry and the syndicates have worked assiduously to put an end to the rash of wildcat strikes by persuading striking textile, bus and trolley operators, and bakers to return to work and accept the government's new minimum monthly wage. There are no major strikes in progress now, but if labor feels the minimum wage is too low and does not bind enough employers, further labor unrest is likely, particularly in those firms that do not have effective control of the workers.

Although the cooperation of the Communist Party was vital in settling the labor disputes, the difficulties encountered in persuading the workers to accept some of the terms show that the party's influence among the rank and file is not great, even though it controls many of the top syndicate posts. While the possibility exists that the Communist Party is capable of fomenting strikes at the plant level while condemning them publicly, the US embassy in Lisbon is convinced that the party acted in good faith this time. [REDACTED]

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USSR-BANGLADESH

The Soviet ambassador to Bangladesh recently confirmed to the US ambassador that Soviet salvage operations in the port of Chittagong would end as scheduled on June 30. The four remaining naval auxiliaries will depart on June 10. A residual force will continue training the Bengalees to use Soviet salvage equipment, but they too will leave by the end of the month.

Soviet efforts to clear Chittagong of ships sunk during the 1971 war for independence began in April 1972 and were scheduled for completion in December 1973. Dacca, however, asked the Soviets to stay on another six months to clear the harbor of some ships sunk in the harbor prior to the 1971 war.

The Bengalees, though grateful for Moscow's assistance, have become increasingly uneasy about the continuing large Soviet presence in Chittagong and are anxious for the operation to end by June 30. The slow pace of salvage operations had aroused Bengalee suspicions of Soviet intentions in Bangladesh, and there was popular resentment over the imperious attitude of the Soviet workers.

Although the Soviets claim a peak force of about 700 men, it probably numbered about 1,200 and involved 14 naval auxiliaries. At present, some 200 naval personnel remain.

Despite the imminent departure of the task force, the Soviets will remain well-represented in Bangladesh. They have a large embassy in Dacca, an air force training mission, a consulate general, a trade mission, and a maritime assistance program. The USSR is also working on an electrical equipment plant begun prior to the war.

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USSR

The USSR has moved toward endorsing the call for another international Communist conference.

After six months of patient behind-the-scene efforts, the Soviets used a Pravda editorial yesterday marking the fifth anniversary of the last Communist conference in Moscow to support the call for another world gathering. The Soviets had hitherto used their East European allies as stalking-horses in calling for the next conference.

Moscow has a lot more to do before a conference can be realized. Several important Communist parties in Europe and Asia are opposed to holding another meeting. They fear--with much justification--that Moscow intends to use the conference to denounce the Chinese and to impose a new orthodoxy on the international movement.

The Soviets will now try to promote several regional meetings--particularly in Latin America and Europe--to try to hammer out a common approach. An all-European meeting probably could not take place before early 1975, and an international gathering is at least more than a year away. [REDACTED]

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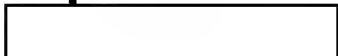
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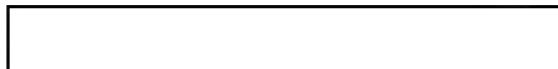
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